



恒生銀行
HANG SENG BANK

Banking Disclosure Statement

30 September 2018

(Unaudited)

**These disclosures are prepared under
the Banking (Disclosure) Rules**

BANKING DISCLOSURE STATEMENT *(unaudited)*

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BANKING DISCLOSURE STATEMENT *(unaudited) (continued)*

Introduction

Purpose

The information contained in this document is for Hang Seng Bank Limited ("the Bank") and its subsidiaries (together "the Group") to comply with the Banking (Disclosure) Rules ("BDR") made under section 60A of the Banking Ordinance.

These banking disclosures are governed by the Group's disclosure policy, which has been approved by the Board. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the Banking Disclosure Statement is not required to be externally audited, the document has been subject to independent review in accordance with the Group's policies on disclosure and its financial reporting and governance processes.

Basis of preparation

Except where indicated otherwise, the financial information contained in this Banking Disclosure Statement has been prepared on a consolidated basis. The basis of consolidation for regulatory purposes is different from that for accounting purposes.

The approaches used in calculating the Group's regulatory capital and risk-weighted assets ("RWAs") are in accordance with the Banking (Capital) Rules ("BCR"). The Group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For counterparty credit risk, the Group uses the current exposure method to calculate its default risk exposures. For market risk, the Group uses an internal models approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures and the standardised (market risk) approach for calculating other market risk positions. For operational risk, the Group uses the standardised (operational risk) approach to calculate its operational risk.

The Banking Disclosure Statement

The Hong Kong Monetary Authority ("HKMA") has implemented the Basel Committee on Banking Supervision ("BCBS") standards on revised Pillar 3 disclosures requirements released in January 2015 ("January 2015 standard") since 2017. In June 2018, the HKMA further amended the BDR to incorporate the BCBS Pillar 3 disclosures requirements – consolidated and enhanced framework finalised in March 2017 ("March 2017 standard"). The Group has implemented the relevant updates and new requirements in accordance with the latest BDR. The Banking Disclosure Statement includes the information required under the BDR.

According to the BDR, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates. Prior period disclosures can be found in the Regulatory Disclosures section of our website, www.hangseng.com.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At ¹				
	Footnotes	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017	30 Sep 2017
Regulatory capital (HK\$m)	2					
1 Common Equity Tier 1 ("CET1")		100,320	97,542	95,632	94,458	92,323
2 Tier 1		107,301	104,523	102,613	101,439	99,304
3 Total capital		121,299	118,100	116,016	115,247	114,924
RWA (HK\$m)	2					
4 Total RWA		602,711	601,549	600,727	572,723	559,689
Risk-based regulatory capital ratios (as a percentage of RWA)	2					
5 CET1 ratio (%)		16.6	16.2	15.9	16.5	16.5
6 Tier 1 ratio (%)		17.8	17.4	17.1	17.7	17.7
7 Total capital ratio (%)		20.1	19.6	19.3	20.1	20.5
Additional CET1 buffer requirements (as a percentage of RWA)	2					
8 Capital conservation buffer requirement (%)		1.875	1.875	1.875	1.250	1.250
9 Countercyclical capital buffer requirement (%)		1.661	1.651	1.626	1.085	1.071
10 Higher loss absorbency requirements (%) (applicable only to Global systemically important authorised institutions ("G-SIBs") or Domestic systemically important authorised institutions ("D-SIBs"))		1.125	1.125	1.125	0.750	0.750
11 Total AI-specific CET1 buffer requirements (%)		4.661	4.651	4.626	3.085	3.071
12 CET1 available after meeting the AI's minimum capital requirements (%)		11.8	11.4	11.1	11.7	11.7
Basel III leverage ratio	3					
13 Total leverage ratio ("LR") exposure measure (HK\$m)		1,418,636	1,444,966	1,415,190	1,388,288	1,352,559
14 LR (%)		7.6	7.2	7.3	7.3	7.3
Liquidity Coverage Ratio ("LCR")	4					
15 Total high quality liquid assets ("HQLA") (HK\$m)		280,177	274,966	279,172	277,788	286,364
16 Total net cash outflows (HK\$m)		135,029	131,540	135,437	133,131	118,750
17 LCR (%)		208.2	209.6	207.0	209.5	242.3
Net Stable Funding Ratio ("NSFR")	5					
18 Total available stable funding (HK\$m)		1,038,035	1,058,496	1,025,318	N/A	N/A
19 Total required stable funding (HK\$m)		689,787	689,335	670,407	N/A	N/A
20 NSFR (%)		150.5	153.6	152.9	N/A	N/A

- 1 All figures reported in 2018 are under the new Hong Kong Financial Reporting Standard 9 ("HKFRS 9"). Prior to 2018, the figures presented are reported under the Hong Kong Accounting Standard 39 ("HKAS 39").
- 2 The regulatory capital, RWA, risk-based regulatory capital ratios and additional CET1 buffer requirements above are based on or derived from the information as contained in the "Capital Adequacy Ratio" return submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the BCR.
- 3 From 1 January 2018 onwards, the Basel III leverage ratio disclosures are made in accordance with the information contained in the "Leverage Ratio" return submitted to the HKMA under the requirements specified in Part 1C of the BCR. Prior to 2018, the leverage ratio disclosures are made in accordance with the "Quarterly Template on Leverage Ratio" submitted to the HKMA during the parallel run period.
- 4 The LCR shown are the simple average values of all working days in the reporting periods and are made in accordance with the requirements specified in the "Liquidity Position" return submitted to the HKMA under rule 11(1) of the Banking (Liquidity) Rules ("BLR").
- 5 The NSFR disclosures are made in accordance with the information contained in the "Stable Funding Position" return submitted to the HKMA under the requirements specified in rule 11(1) of the BLR. The requirements have been implemented with effect from 2018 reporting periods. Accordingly, the 2017 ratios are not shown.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Capital and risk-weighted assets

Leverage ratio

The following table shows the leverage ratio, Tier 1 capital and total exposure measure as contained in the "Leverage Ratio" return submitted to the HKMA under the requirements specified in Part 1C of the BCR.

Table 2: LR2 – Leverage ratio

		a	b
		30 Sep 2018	30 Jun 2018
		HK\$m	HK\$m
On-balance sheet exposures			
1	On-balance sheet exposures (excluding those arising from derivative contracts and securities financing transactions ("SFTs"), but including collateral)	1,350,327	1,373,387
2	Less: Asset amounts deducted in determining Tier 1 capital	(31,238)	(31,272)
3	Total on-balance sheet exposures (excluding derivative contracts and SFTs)	1,319,089	1,342,115
Exposures arising from derivative contracts			
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	5,278	3,774
5	Add-on amounts for potential future exposure ("PFE") associated with all derivative contracts	12,076	11,656
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	-	-
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	-	-
8	Less: Exempted central counterparty ("CCP") leg of client-cleared trade exposures	-	-
9	Adjusted effective notional amount of written credit derivative contracts	-	-
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivative contracts	-	-
11	Total exposures arising from derivative contracts	17,354	15,430
Exposures arising from SFTs			
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	3,696	9,584
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	-	-
14	Counterparty credit risk ("CCR") exposure for SFT assets	248	614
15	Agent transaction exposures	-	-
16	Total exposures arising from SFTs	3,944	10,198
Other off-balance sheet exposures			
17	Off-balance sheet exposure at gross notional amount	483,594	480,198
18	Less: Adjustments for conversion to credit equivalent amounts	(402,436)	(400,464)
19	Off-balance sheet items	81,158	79,734
Capital and total exposures			
20	Tier 1 capital	107,301	104,523
20a	Total exposures before adjustments for specific and collective provisions	1,421,545	1,447,477
20b	Adjustments for specific and collective provisions	(2,909)	(2,511)
21	Total exposures after adjustments for specific and collective provisions	1,418,636	1,444,966
Leverage ratio			
22	Leverage ratio	7.56%	7.23%

BANKING DISCLOSURE STATEMENT (unaudited) (continued)
Overview of the minimum capital requirements and RWAs

Using the standard template as specified by the HKMA, the following table provides an overview of the capital requirements in terms of detailed breakdown of RWAs for credit risk (before any applicable scaling factor of 1.06), market risk and operational risk. Minimum capital requirement represents the amount of capital required to be held for that risk based on its RWAs after any applicable scaling factor multiplied by 8%.

Table 3: OV1 – Overview of RWA

	a	b	c
	Minimum capital requirements		
	RWA		
	30 Sep 2018	30 Jun 2018	30 Sep 2018
	HK\$m	HK\$m	HK\$m
1 Credit risk for non-securitisation exposures	478,406	481,170	40,274
2 <i>Of which: Standardised credit risk ("STC") approach</i>	61,377	64,593	4,910
2a <i>Of which: Basic ("BSC") approach</i>	-	-	-
3 <i>Of which: Foundation internal ratings-based ("IRB") approach</i>	-	-	-
4 <i>Of which: Supervisory slotting criteria approach</i>	8,720	8,134	739
5 <i>Of which: Advanced IRB approach</i>	408,309	408,443	34,625
6 Counterparty default risk and default fund contributions	3,217	3,259	271
7 <i>Of which: Standardised approach for counterparty credit risk ("SA-CCR")*</i>	<i>Not Applicable</i>	<i>Not Applicable</i>	<i>Not Applicable</i>
7a <i>Of which: Current exposure method ("CEM")</i>	3,177	3,161	268
8 <i>Of which: Internal models (counterparty credit risk) ("IMM(CCR))" approach</i>	-	-	-
9 <i>Of which: Others</i>	40	98	3
10 Credit valuation adjustment ("CVA") risk	2,120	1,982	170
11 Equity positions in banking book under the simple risk-weight method and internal models method	15,976	15,166	1,355
12 Collective investment scheme ("CIS") exposures – Look-through approach ("LTA")*	<i>Not Applicable</i>	<i>Not Applicable</i>	<i>Not Applicable</i>
13 CIS exposures – Mandate-based approach ("MBA")*	<i>Not Applicable</i>	<i>Not Applicable</i>	<i>Not Applicable</i>
14 CIS exposures – Fall-back approach ("FBA")*	<i>Not Applicable</i>	<i>Not Applicable</i>	<i>Not Applicable</i>
14a CIS exposures – combination of approaches*	<i>Not Applicable</i>	<i>Not Applicable</i>	<i>Not Applicable</i>
15 Settlement risk	-	-	-
16 Securitisation exposures in banking book	-	-	-
17 <i>Of which: Securitisation internal ratings-based ("SEC-IRBA") approach</i>	-	-	-
18 <i>Of which: Securitisation external ratings-based ("SEC-ERBA") approach</i>	-	-	-
19 <i>Of which: Securitisation standardised ("SEC-SA") approach</i>	-	-	-
19a <i>Of which: Securitisation fall-back ("SEC-FBA") approach</i>	-	-	-
20 Market risk	12,715	11,846	1,017
21 <i>Of which: Standardised market risk ("STM") approach</i>	70	29	5
22 <i>Of which: Internal models ("IMM") approach</i>	12,645	11,817	1,012
23 Capital charge for switch between exposures in trading book and banking book (not applicable before the revised market risk framework takes effect)*	<i>Not Applicable</i>	<i>Not Applicable</i>	<i>Not Applicable</i>
24 Operational risk	57,680	55,655	4,614
25 Amounts below the thresholds for deduction (subject to 250% RW)	19,277	19,257	1,635
26 Capital floor adjustment	-	-	-
26a Deduction to RWA	(13,984)	(14,018)	(1,119)
26b <i>Of which: Portion of regulatory reserve for general banking risks and collective provisions which is not included in Tier 2 Capital</i>	-	-	-
26c <i>Of which: Portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital</i>	(13,984)	(14,018)	(1,119)
27 Total	575,407	574,317	48,217

Items marked with an asterisk (*) will be applicable only after their respective policy frameworks take effect. Until then, "Not applicable" is reported in the rows.

Total RWAs (before any applicable scaling factor) slightly increased by HK\$1.1bn since last quarter.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

RWA flow statements

RWA flow statement for credit risk

Table 4: CR8 – RWA flow statement of credit risk exposures under IRB approach

	a
	Amount HK\$m
1 RWA as at end of previous reporting period (30 June 2018)	416,577
2 Asset size	2,194
3 Asset quality	(3,429)
4 Model updates	-
5 Methodology and policy	-
6 Acquisitions and disposals	-
7 Foreign exchange movements	(1,724)
8 Other	3,411
9 RWA as at end of reporting period (30 Sep 2018)	417,029

RWA slightly increased by HK\$0.5bn in the third quarter of 2018. The amount of "other" mainly represented the reclassification of exposures from STC to IRB approach.

RWA flow statement for market risk

Table 5: MR2 – RWA flow statement of market risk exposures under IMM approach

	a	b	c	d	e	f
	Value at risk ("VaR") HK\$m	Stressed VaR HK\$m	Incremental risk charge ("IRC") HK\$m	Comprehensive risk charge ("CRC") HK\$m	Other HK\$m	Total RWA HK\$m
1 RWA as at end of previous reporting period (30 Jun 2018)	4,429	7,388	-	-	-	11,817
2 Movement in risk levels	531	332	-	-	-	863
3 Model updates/changes	-	-	-	-	-	-
4 Methodology and policy	-	-	-	-	-	-
5 Acquisitions and disposals	-	-	-	-	-	-
6 Foreign exchange movements	(13)	(22)	-	-	-	(35)
7 Other	-	-	-	-	-	-
8 RWA as at end of reporting period (30 Sep 2018)	4,947	7,698	-	-	-	12,645

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Liquidity information

The BLR were introduced by the HKMA in 2014 and became effective from 1 January 2015. The Group is required to calculate its LCR on a consolidated basis in accordance with rule 11(1) of the BLR. During 2018, the Group is required to maintain a LCR of not less than 90%, increasing by 10% to not less than 100% from 1 January 2019.

The average LCRs for the periods are as follows:

Table 6: Average liquidity coverage ratio

	Quarter ended
	30 Sep
	2018
	%
Average liquidity coverage ratio	208.2

In accordance with the BLR, the NSFR is implemented in Hong Kong with effect from 1 January 2018 and the Group is required to calculate its NSFR on a consolidated basis. During 2018, the Group is required to maintain a NSFR of not less than 100%.

The liquidity position and funding position of the Group remained strong for the first three quarters of 2018.

The composition of the Group's high quality liquid assets ("HQLA") as defined under Schedule 2 of the BLR is shown as below. The majority of the HQLA held by the Group are Level 1 assets which consist mainly of government debt securities.

Table 7: Total weighted amount of high quality liquid assets

	Weighted
	value (average)
	for the quarter
	ended
	30 Sep
	2018
	HK\$m
Level 1 assets	268,842
Level 2A assets	10,786
Level 2B assets	549
Total weighted amount of HQLA	280,177

Sources of funding

Our primary sources of funding are customer current accounts and customer savings deposits payable on demand or at short notice. We issue wholesale securities (secured and unsecured) to supplement our customer deposits and change the currency mix or maturity profile of our liabilities.

Currency mismatch

The Group allows currency mismatches to provide some flexibility in managing the balance sheet structure and to carry out foreign exchange trading, on the basis that there is sufficient liquidity in the swap market to support currency conversion in periods of stress. The Group sets limits on LCR by currency for all material currencies based on liquidity in the swap markets. These limits are approved and monitored by Asset and Liability Management Committee ("ALCO").

Additional contractual obligations

Most of the Group's derivative transactions are exchange rate contracts and interest rate contracts. Under the terms of our current collateral obligations under derivative contracts (which are International Swaps and Derivatives Association ("ISDA") compliant Credit Support Annex ("CSA") contracts), in the event of one-notch and two-notch downgrade in credit ratings, the additional collateral required to post is immaterial.

A summary of the Group's current policies and practices for the management of liquidity and funding risk is set out in "Liquidity and funding risk" section on page 57 to 61 of the Group's Annual Report 2017.

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

The following table sets out the required disclosure items under the Liquidity Coverage Ratio Standard Disclosure Template as specified by the HKMA. The number of data points used in calculating the average value of the LCR and related components set out in this table for the quarter ended on 30 September 2018: (76 data points)

Table 8: LIQ1 – Liquidity coverage ratio – for category 1 institution

		Quarter ended 30 Sep 2018 (76 data points)	
		a	b
Basis of disclosure: consolidated		Unweighted value (average)	Weighted value (average)
		HK\$m	HK\$m
A	High quality liquid assets		
1	Total high quality liquid assets ("HQLA")		280,177
B	Cash outflows		
2	Retail deposits and small business funding, of which:	817,348	66,680
3	<i>Stable retail deposits and stable small business funding</i>	215,067	6,452
4	<i>Less stable retail deposits and less stable small business funding</i>	602,281	60,228
4a	<i>Retail term deposits and small business term funding</i>	-	-
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the institution, of which:	268,337	114,690
6	<i>Operational deposits</i>	60,823	14,460
7	<i>Unsecured wholesale funding (other than small business funding) not covered in Row 6</i>	207,514	100,230
8	<i>Debt securities and prescribed instruments issued by the institution and redeemable within the LCR period</i>	-	-
9	Secured funding transactions (including securities swap transactions)		3
10	Additional requirements, of which:	80,075	12,552
11	<i>Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements</i>	4,507	4,480
12	<i>Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions</i>	1,073	1,073
13	<i>Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)</i>	74,495	6,999
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	18,714	18,714
15	Other contingent funding obligations (whether contractual or non-contractual)	407,256	1,687
16	Total cash outflows		214,326
C	Cash inflows		
17	Secured lending transactions (including securities swap transactions)	412	-
18	Secured and unsecured loans (other than secured lending transactions covered in Row 17) and operational deposits placed at other financial institutions	112,732	63,360
19	Other cash inflows	25,340	15,937
20	Total cash inflows	138,484	79,297
D	Liquidity coverage ratio (adjusted value)		
21	Total HQLA		280,177
22	Total net cash outflows		135,029
23	LCR (%)		208.2%

BANKING DISCLOSURE STATEMENT (unaudited) (continued)

Other information

Abbreviations

A		L	
AI	Authorised institution	LCR	Liquidity coverage ratio
ALCO	Asset and Liability Management Committee	LR	Leverage ratio
B		LTA	Look through approach
Bank	Hang Seng Bank Limited	M	
BCBS	Basel Committee on Banking Supervision	MBA	Mandate-based approach
BCR	Banking (Capital) Rules	N	
BDR	Banking (Disclosure) Rules	N/A	Not applicable
BLR	Banking (Liquidity) Rules	NSFR	Net stable funding ratio
BSC	Basic approach	P	
C		PFE	Potential future exposure
CCP	Central counterparty	R	
CCR	Counterparty credit risk	RWA	Risk-weighted asset/risk-weighted amount
CEM	Current exposure method	S	
CET1	Common equity tier 1	SA-CCR	Standardised approach for counterparty credit risk
CIS	Collective investment scheme	SEC-ERBA	Securitisation external ratings-based approach
CRC	Comprehensive risk charge	SEC-FBA	Securitisation fall-back approach
CSA	Credit Support Annex	SEC-IRBA	Securitisation internal ratings-based approach
CVA	Credit valuation adjustment	SEC-SA	Securitisation standardised approach
D		SFT	Securities financing transaction
D-SIB	Domestic systemically important authorised institution	STC	Standardised (credit risk) approach
F		STM	Standardised (market risk) approach
FBA	Fall-back approach	T	
G		T1	Tier 1
G-SIB	Global systemically important authorised institution	T2	Tier 2
Group	Hang Seng Bank Limited together with its subsidiaries	V	
H		VaR	Value at risk
HK\$bn	Billions (thousands of millions) of Hong Kong dollars		
HK\$m	Millions of Hong Kong dollars		
HKAS	Hong Kong Accounting Standards		
HKFRS	Hong Kong Financial Reporting Standards		
HKMA	Hong Kong Monetary Authority		
Hong Kong	The Hong Kong Special Administrative Region of the People's Republic of China		
HQLA	High quality liquid assets		
I			
IMM	Internal models approach		
IMM(CCR)	Internal models (counterparty credit risk) approach		
IRB	Internal ratings-based approach		
IRC	Incremental risk charge		
ISDA	International Swaps and Derivatives Association		